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Subcommittee on Domestic and International Monetary Policy,
Trade and Technology

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Good afternoon, Mr. Chairman. I would like to thank you, as well as the distinguished Ranking Member, Ms. Maloney, and the other members of the subcommittee for providing an opportunity to discuss currency issues and the role of the Secret Service in the enforcement of our counterfeiting laws. Let me say at the outset of this hearing that the Secret Service has long enjoyed its relationship with this subcommittee, and we are extraordinarily grateful for your longstanding support of our mission and our employees.

As this subcommittee is aware, the Secret Service has been responsible for the integrity of our currency since 1865. It is our founding mission. And while we recognize that the public today is far more aware of our protective mission with regard to the President, Vice President and other officials, it is important to understand that every special agent on a protective detail today began his or her Secret Service career investigating counterfeiting cases and other financial crimes.

I want to assure the members of this subcommittee that counterfeit currency investigations remain a high priority for the Secret Service. Although our agency was transferred to the Department of Homeland Security in March of 2003, we retained all of our personnel, resources and investigative jurisdictions and responsibilities. Additionally, we have preserved important ties and relationships with key entities in the Department of the Treasury, including our colleagues at the Bureau of Engraving and Printing (BEP), as well as at the Federal Reserve. The Secret Service has maintained that economic security is vital to homeland security, and as such, the safeguarding of our financial infrastructure and monetary framework continues to be a paramount objective of our worldwide investigative efforts.

It is estimated that some \$670 billion of genuine U.S. currency is currently in worldwide circulation, and as much as two-thirds of this is circulated overseas. While current levels of counterfeiting represent a tiny fraction of this amount and do not have a meaningful impact on our economy as a whole, the losses incurred by individual or businesses from these counterfeit notes can be significant.

Because of the dollar's stability and value, as well as its widespread use overseas, it continues to be a target for transnational counterfeit activity. The counterfeiting of U.S. currency also continues to be associated with organized crime and drug trafficking.

Recent trends in the counterfeiting of U.S. currency indicate a growing globalization in production and distribution of counterfeit notes. Because not all nations report the passing of counterfeit currency, other than their own, it is difficult to provide precise figures detailing how much counterfeit U.S. currency is passed on a global scale each year. The Secret Service estimates that approximately \$37 million in counterfeit U.S. dollars were passed successfully in the United States in FY2003. This would represent about a 14% reduction from the amount of counterfeit U.S. currency passed in the previous fiscal year.

Secret Service statistics also show that approximately \$63 million in counterfeit U.S. currency was seized last year by the Secret Service and other authorities worldwide. Of this amount, approximately \$10.7 million was seized in the United States. The remaining notes were seized overseas, with over \$31 million seized in Colombia alone.

It is also interesting to see the different methods utilized by counterfeiters both within the United States and outside of our borders. Last year, more than 42% of all counterfeit currency passed domestically was printed outside of the U.S. using traditional offset printing techniques. Virtually every note that was produced overseas and passed in the U.S. was produced by offset printing. In contrast, 46% of the counterfeit currency passed domestically last year was produced within the U.S. by individuals using digital technology such as home computers and color copiers.

In recent years, the Secret Service has enhanced its international anti-counterfeiting efforts. Today, our agency maintains 17 foreign offices and continues to target strategic locations throughout the world where significant counterfeiting activity is detected through joint task forces with our foreign law enforcement partners. Our investigative history has proven that the effective suppression of counterfeiting operations requires a close partnership between our foreign field offices and their local law enforcement counterparts, as well as an immediate response by the law enforcement community in order to develop investigative leads generated when a new counterfeit note is detected or an arrest is made. The Secret Service has long believed that the strategic placement of personnel promotes more aggressive law enforcement operations because agents are able to respond in a timely and consistent manner. Also, the ongoing presence of our agents in foreign locales allows the Secret Service to build the same trusted partnerships with our foreign law enforcement counterparts as we have successfully built with our local police partners in the United States.

Today, Colombia is the single largest producer of counterfeit U.S. currency in the world, accounting for approximately 26%, or \$10 million, of the \$37 million in counterfeit dollars passed in the United States last year.

Colombian counterfeiting operations tend to employ many of the same distribution networks and methods as those used in the trafficking of narcotics. The Secret Service is following a trend that indicates counterfeiting activity may increase in Latin America as Colombian organized crime and others take advantage of the counterfeiting opportunities associated with “dollarization”, which is the process of a foreign country adopting the U.S. dollar as its own currency. Counterfeit printing plant suppressions and seizures in Colombia show that a number of Colombian counterfeiters are producing lower denomination counterfeit U.S. currency for distribution in fully “dollarized” countries. In December of 2001, the Secret Service detected over \$40 million in counterfeit U.S. currency intended for distribution in Ecuador, a country with a dollarized economy. In July of 2002, and again in January of 2003, counterfeit U.S. \$1 coin operations were suppressed in Colombia. These coins, the Sacagawea or ‘Golden Dollar,’ were intended for distribution in Ecuador due to a preference for \$1 coins as opposed to \$1 Federal Reserve Notes (FRN).

In May of 2001, the Secret Service entered into a historic agreement with the government of Colombia to combat organized financial crime. This agreement included the establishment of a vetted anti-counterfeiting force (VACF) using agents from the Departamento Administrativo de Seguridad (DAS) and the Departamento de Investigaciones Judiciales de Inteligencia (DIJIN) of the Colombian National Police.

These VACF units work in conjunction with Secret Service agents from our Bogotá Resident Office in the identification and suppression of counterfeiting operations in Colombia. Through July of 2003, the cooperative effort between the Secret Service and Colombian law enforcement has resulted in the seizure of \$124 million in counterfeit U.S. currency, the suppression of 38 manufacturing operations, 165 counterfeit-related arrests, as well as the seizure of miscellaneous contraband (narcotics, explosives and firearms, and counterfeit U.S. visas).

An additional aspect of this collaboration was the enhancement of Colombian laws relating to counterfeit U.S. currency. A new Colombian counterfeiting statute mandates that anyone possessing over \$10,000 in counterfeit U.S. currency serve a minimum of three (3) years and a maximum of eight (8) years in prison, with no possibility of probation.

As a result of these efforts, there has been a 37% reduction in Colombian-produced counterfeit currency passed in the United States, from approximately \$15.3 million passed domestically in FY2002 to approximately \$9.6 million passed in FY2003. This collaboration with the Colombian government has been a success story, and the Secret Service is eager to work with this subcommittee and the Congress to obtain the authority to continue these efforts both in Colombia and other troubled regions.

The economic and social conditions that fostered significant counterfeiting of U.S. currency in Colombia are not restricted to South America. More recently, the breakup of the Soviet Union triggered the growth of organized crime networks throughout the former Soviet Bloc countries in Eastern Europe. Bulgaria has experienced a significant growth

in organized crime activities, with groups becoming involved in narcotics trafficking, smuggling, illegal arms distribution, money laundering, and the production and distribution of counterfeit U.S. currency.

Most of the Bulgarian counterfeit notes are printed on custom-produced counterfeit paper and are printed using the offset and typographic processes. These notes are then distributed in the United States, using Bulgarian organized criminal networks already in place in a number of American cities.

In March of 2002, the Secret Service joined forces with the Bulgarian National Service for Combating Organized Crime to form the Bulgarian Counterfeit Task Force (BCTF). This task force -- based in Sofia, Bulgaria -- was established to address the rising trend of counterfeit U.S. currency production in Bulgaria, a nation that now ranks among world leaders in terms of offset counterfeit production. Since 1996, over \$14 million in counterfeit U.S. currency manufactured in Bulgaria has been passed and/or seized worldwide, resulting in over 100 related arrests. Secret Service agents working with the BCTF have seized over \$5.6 million and suppressed several counterfeiting operations.

As new technologies continue to emerge, the challenges facing law enforcement are significant. The rapid and continual advancement of reprographic technology has enabled an expanding criminal element to conduct a variety of crimes. These advancements mean large quantities of counterfeit currency and other obligations can be reproduced quickly and efficiently. Today's criminals need relatively little knowledge or specialized training to print counterfeit currency or other financial obligations. Utilizing equipment ranging from inexpensive color copiers, scanners, computers and inkjet printers, to large commercial presses, a counterfeiter or criminal organization can flood a region with counterfeit currency.

Domestically, the Secret Service is attacking counterfeit production and circulation utilizing a two-pronged approach. First, with our partners in the Department of the Treasury and the Federal Reserve, we are continuing with the redesign of our currency. As a member of the Advanced Counterfeit Deterrence Committee (ACD) and the Currency Redesign Committee, we have an active role in the research, design, and introduction of the new currency. The Secret Service is continually studying cutting-edge anti-counterfeiting technologies for future redesigns of U.S. currency. Second, and also in conjunction with the Treasury Department, the Secret Service has pursued an active dialogue with private industry to create a joint effort aimed at curbing the dramatic increase in digitally-produced counterfeit currency. It is the desire of all involved parties to allow for the creation of digital products that satisfy Treasury standards and the consumer market.

Public education and training continues to play a large role in the Secret Service's efforts to suppress the manufacturing, distribution and sale of counterfeit U.S. currency, both domestically and abroad. Secret Service personnel conduct training seminars in topics such as combating counterfeit, financial crimes, and computer forensics in an effort to

assist our domestic and foreign counterparts in their local law enforcement communities and augment the Secret Service's mission.

In 1996, the Bureau of Engraving and Printing (BEP) issued the first major redesign of U.S. currency in over 50 years. The new design included a number of security features intended to make it easier for the public to authenticate their currency, as well as making digital reproduction efforts more difficult and costly for counterfeiters. The series 1996 (\$20, \$50, and \$100 denominations) and 1999 (\$5 and \$10 denominations) designs have proven to be effective in reducing the rate of counterfeit notes detected in a given quantity of genuine notes examined when compared to the rate of counterfeit notes found with older designs.

In late 2003, the BEP introduced the newly-designed \$20 FRN. As the subcommittee is aware, the BEP has recently unveiled a new design for the \$50 FRN, and a design change for the \$100 denomination will follow within the next two years.

In the invitation to testify here today, the subcommittee requested an evaluation of the effectiveness of the \$20 note that has been recently redesigned and introduced into circulation. The new notes have only been in circulation for a few short months, and our findings are therefore somewhat preliminary. We have seen increases in the counterfeiting of these new notes, which is not historically uncommon as redesigned currency is introduced. In the coming months, the Secret Service intends to closely monitor this activity and to work with our partners here at the table to determine the effectiveness of these new security features and make improvements where possible.

Mr. Chairman, this concludes my prepared remarks. I would be pleased to answer any questions that you or members of the subcommittee may have.